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C O N F I D E N T I A L SECTION 01 OF 02 BANDAR SERI BEGAWAN 000050

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DEPARTMENT FOR EAP/MTS AND APEC AMBASSADOR MICHALAK

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TAGS: [ETRD](#) [PREL](#) [APEC](#) [XB](#) [BX](#)  
SUBJECT: BRUNEI SEES P4 FREE TRADE AGREEMENT AS POSSIBLE  
WAY FORWARD ON FTAAP

REF: A. 06 BANDAR SERI BEGAWAN 573  
[1](#)B. SINGAPORE 206

Classified By: DCM Justin Friedman, reasons 1.4 (b) & (d)

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SUMMARY AND COMMENT  
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[1](#)1. (C) Brunei likes the flexibility of the P4 Free Trade Agreement and sees it as a potential framework for a broader Free Trade Area of the Asia Pacific. However, GoB officials believe that some ASEAN nations may continue to prefer ASEAN-style, positive, sector-by sector opt-in trade agreements as opposed to the negative, opt-out format of the P4. The GoB is eager to learn more about U.S. ideas for the FTAAP and how it would relate to APEC work on model FTA measures. As a small, oil & gas-export driven economy with no national champion industries to protect, good free trade credentials and reputation for seeking consensus in multilateral fora, bringing Brunei on board early could help the USG advance our FTAAP agenda. END SUMMARY and COMMENT.

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P4: A Good Start for FTAAP...  
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[1](#)2. (C) DCM met February 7 with Mazlilah Mahalee, Assistant Director for Trade Development, Ministry of Foreign Affairs and Trade (MOFAT) to solicit GoB views on Brunei's experience joining the Trans Pacific Strategic Economic Partnership Agreement (the Pacific-4 or P4) with Singapore, Chile, and New Zealand. Ms. Mahalee is a youngish, but veteran trade negotiator, who served for five years (1999-2004) in Geneva on Brunei's WTO negotiating team and is now an important player on Brunei's P4 implementation/negotiation team. Ms. Mahalee is an avowed free-trader who personally favors WTO-level trade liberalization in principle over FTAs.

[1](#)3. (C) Ms. Mahalee said that the GoB liked the P4 and saw it as a potential framework for a FTAAP (see also ref A). The P4 is Brunei's first multilateral free trade agreement. Noting that joining the P4 was first and foremost a political decision, Ms. Mahalee said that the P4 had forced Brunei to expand the scope of its trade agenda. This was the first time Brunei had accepted bringing environment, labor, and government procurement issues under international agreements.

[1](#)4. (C) Ms. Mahalee praised the P4 agreement structure as better suited to countries like Brunei which need flexibility and some time (two years in this case) to work through bringing national legislation in line with FTA commitments. She said that implementing the P4 has injected vigor into internal, interagency reviews of economic regulations and forced her counterparts in other ministries to quickly climb a steep learning curve to understand the impact of conforming

to P4 chapters. This was the first time Brunei had worked with a "negative" list structured FTA -- where all sectors are assumed to be fully under the FTA unless a country specifically opts out. This forced the GoB to do its homework in implementing its P4 commitments.

15. (C) Another positive for the P4 from the Brunei perspective is that the chapters require different levels of commitment from the signatories. For example, the environment and labor chapters are in the form of memoranda of understanding ) a form with which Brunei is more comfortable as there are no penalties for failure to quickly and fully comply. DCM cautioned that as the U.S. considered options for an FTAAP, meaningful labor and environmental protections would be essential to ensure broad political support in the U.S. for any trade agreement. Ms. Mahalee also singled out the P4 chapter on Strategic Economic Cooperation as being well suited to Brunei's desire to build up stronger networks of economic relationships.

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... But Still a Work in Progress...  
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16. (C) The main drawback of the P4 was that it is still a work in progress. Ms. Mahalee admitted that the chapters on financial services and investment were still under development. While she expected negotiations to start this quarter on these chapters, Brunei would have strong incentives to seek concessions or a limited time exemption to protect its fledgling banking sector from being overwhelmed by foreign competition. Accepting government procurement rules would also be a challenge to Brunei which sees local procurement preferences as a way to build up local SME

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capacities.

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... Which may give other ASEAN members heartburn  
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17. (C) While Ms. Mahalee praised the "negative" structure of the P4 agreement, she said that other ASEAN nations would be reluctant to move away from the "positive" structure of opting in on specific industry sectors which is the basis of ASEAN agreements. She said that counterparts from Malaysia and Thailand in particular, but also Indonesia, had told her directly that they did not like this aspect of the P4.

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Crowded Trade Agenda  
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18. (SBU) Brunei has a crowded agenda of FTA negotiations. Under the ASEAN umbrella, Brunei is now negotiating FTAs with India, China, Japan, Australia ) New Zealand, and the EU. On top of that, Brunei is also negotiating a bilateral FTA with Japan, having come to agreement in principle in December. On top of that, Brunei would like to see the suspended Doha Round WTO talks restarted. Ms. Mahalee said that she was disappointed that the U.S. and EU had not yet reached agreement on agriculture.

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Where is the U.S. Going?  
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19. (C) Brunei is looking for the U.S. to drive the global and regional trade agenda. Ms. Mahalee said that there were so many regional groupings with trade on their agendas that it was sometimes a challenge to engage in so many dialogues. She said that a U.S.-led effort to clarify and direct the FTAAP process at the September leaders' meeting was needed and Brunei trade officials were eager to learn more of what the U.S. had in mind. She cautioned that Brunei would be

reluctant to endorse any effort that abandoned work APEC has done thus far to develop model measures for FTAs.

¶10. (C) Brunei's main concern on trade right now was the impending expiration of U.S. trade promotion authority (TPA). She said that the MOFAT trade team had discussed that morning what would be the consequences of Congress failing to reauthorize TPA. DCM responded that renewing TPA was a high priority for the President but the debate in Congress would be sharp.

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COMMENT  
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¶11. (C) Although an important regional energy exporter, Brunei is a small economy even in the ASEAN context. In international fora, Brunei has a well deserved reputation for seeking consensus. Since it does not have other major, national-champion industries, Brunei is in a unique position to play the role of an "honest broker" in any trade talks. We believe that as the U.S.G. develops ideas on where to take regional trade negotiations and the FTAAP concept, Brunei could serve the role as both a useful sounding board and a quiet but effective advocate to advance our positions.  
SKODON